

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 SSO-00 AID-05 CEA-01
CIAE-00 COME-00 EA-10 FRB-03 INR-10 NEA-10
NSAE-00 OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01
AGRE-00 OMB-01 SS-15 STR-07 NSCE-00 INRE-00
USIE-00 L-03 OIC-02 /111 W
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O R 131709Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 8543
INFO ALL OECD CAPITALS
AMEMBASSY BRUSSELS
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FOR EB/ICD
EO 11652: N/A
TAGS: ETRD, OECD
SUBJECT: COMMON FUND: MEETING OF OECD AD HOC GRUOP
MARCH 9-10

1. SUMMARY: AD HOC GROUP HAD USEFUL EXPLORATORY
EXCHANGE OF VIEWS ON MAIN ISSUES IN AREA OF VOTING
AND MANAGEMENT FOR A COMMON FUND (CF), WITH FOCUS
ON MEMBERSHIP QUESTION AND OTHER ISSUES RAISED IN
DISCUSSION PAPERS CIRCULATED BY U.S. AND NORWAY.
SUBJECTS OF COMPOSITION OF EVENTUAL EXECUTIVE
BOARD, ALLOCATION OF VOTING RIGHTS, AND WHETHER
FUND MEMBERSHIP SHOULD BE UNIVERSAL OR COMPOSED OF
INTERNATIONAL COMMODITY AGREEMENTS (ICAS) AND/OR
THEIR MEMBERS AROUSED MOST INTEREST. ISSUE
OF THE KINDS OF DECISIONS CF BODIES WOULD HAVE TO
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MAKE CLEARLY NEEDS MORE WORK. FOR NEXT MEETING,
SCHEDULED FOR APRIL 5-6, GROUP WILL CONTINUE
DISCUSSION AND TAKE UP ANY OTHER ISSUES WHICH
DEVELOPMENTS IN MEANTIME SHOW TO BE APPROPRIATE.
SECRETARIAT WILL DO STUDY OF VOTING RIGHTS IMPLIED
BY COUNTRIES' WEIGHTS IN ICAS AND ICA'S WEIGHTS IN
A CF. END SUMMARY.

2. MEMBERSHIP: GROUP'S DISCUSSION FOCUSED ON ISSUE OF WHETHER CF MEMBERSHIP SHOULD BE RESTRICTED TO ICA'S AND THEIR MEMBER GOVERNMENTS OR BE UNIVERSAL IN CHARACTER. THERE WAS GENERAL RECOGNITION OF LOGICAL CONNECTION BETWEEN THE FORMER OPTION AND GROUP B PROPOSAL FOR AN ICA-BASED CF. U.S. AND FRG MOST STRONGLY SUPPORTED THIS POSITION, WITH U.S. ARGUING THAT SINCE IT WAS THE ICAS AND ICA MEMBER GOVERNMENTS THAT WOULD DEPOSIT RESOURCES IN THE CF, THEY HAD GREATEST STAKE IN ITS OPERATIONS. OTHER DELS, WHILE ADMITTING LOGIC OF THIS VIEW, AND EMPHASIZING THEY HAD NO FIRM POSITION YET, WERE SKEPTICAL ABOUT ITS PRACTICALITY. UK AND FRANCE THOUGHT UNIVERSAL NATURE OF NEGOTIATIONS FOR CF WOULD MAKE IT VERY HARD NOT TO ALLOW UNIVERSAL MEMBERSHIP IN CF ITSELF, AND BELGIANS SUGGESTED UNIVERSAL MEMBERSHIP COULD BE USED AS A GROUP B FALLBACK POSITION. UK DEL SAID HIS CALCULATION SHOWED ABOUT 80 OF 116 MEMBERS OF G-77 BELONGED TO EXISTING ICAS, WITH OPEC COUNTRIES MOST CONSPICUOUS GROUP LEFT OUT.

3. SWEDEN, SPAIN, FINLAND, AND SWITZERLAND THOUGHT IDEA OF NON-UNIVERSAL MEMBERSHIP WAS POLITICAL NON-STARTER AND THAT MAIN QUESTION WAS DECISION-MAKING LIMITED OFFICIAL USE

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MECHANISM WITH ADEQUATE SAFEGUARDS FOR GROUP B RATHER THAN MEMBERSHIP PER SE. JAPAN AGREED WITH LATTER POINT, BUT OTHERWISE REMAINED SILENT THROUGHOUT THE MEETING. SEVERAL DELS COMMENTED ON POSSIBILITY THAT AN EXECUTIVE BODY INVOLVING ONLY ICA-SELECTED REPRESENTATIVES (ONE OF OPTIONS PROPOSED BY U.S.) MIGHT BE SUBJECT TO CONFLICTS OF INTEREST AMONG ICAS AND THAT NON-UNIVERSAL MEMBERSHIP WOULD INDUCE LDCS TO JOIN ICAS JUST TO GAIN MEMBERSHIP IN CF. THIS COULD LEAD TO UNDESIRABLE POLITICIZATION OF ICAS THEMSELVES. DUTCH POINTED OUT THAT THEIR CONCEPTION OF FINANCIAL STRUCTURE OF CF--WITH DIRECT GOVERNMENTAL CONTRIBUTIONS--MADE MECHANISMS INVOLVING ONLY ICAS INAPPROPRIATE.

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4. U.S. PAPER: MANY DELS COMMENTED ON DISCUSSION
PAPER CIRCULATED BY U.S. THIS PAPER ENVISAGES
A CF, WHICH ONLY GOVERNMENTS MEMBERS OF ICAS WOULD
BE ELIGIBLE TO JOIN, AND WHICH WOULD HAVE A PLENARY
AND AN EXECUTIVE BOARD. IT SUGGESTS TWO WAYS FOR
ORGANIZING THE DECISION-MAKING IN THE FUND. IN
ALTERNATIVE A, THE CF'S EXECUTIVE BOA"D WOULD
CONSIST OF TWO GOVERNMENT REPRESENTATIVES ELECTED
BY CONSUMING AND PRODUCING MEMBERS OF ICAS. IN
ALTERNATIVE B, THE EXECUTIVE BOARD WOULD CONSIST OF
A LIMITED NUMBER OF MEMBER GOVERNMENTS ELECTED BY
THE PLENARY BODY. SEVERAL DELS, INCLUDING SWEDEN,
DENMARK, FRANCE, FINLAND WERE SKEPTICAL THAT ALTERNATIVE
A WOULD BE FEASIBLE, ARGUING IT COULD REQUIRE
CUMBERSOME CAUCUSSING IN ICAS, AND RESULT IN THE
LARGER PRODUCER/CONSUMER GOVERNMENTS (I.E. THE U.S.)
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REPRESENTING ICA CONSTITUENCIES. U.S. RESPONDED THAT
SPLIT VOTING BY ICA-SELECTED REPRESENTATIVES WOULD
ALLOW ALL ICA MEMBERS TO BE ADEQUATELY REPRESENTED.
FRG SUGGESTED THAT U.S. ALTERNATIVE A WITH VOTE
SPLITTING ALLOWED WAS SIMPLY A MORE CUMBERSOME

VERSION OF ALTERNATIVE B. UK PRIVATELY ALSO
EXPRESSED SKEPTICISM ON ALTERNATIVE A.

5. IN DISCUSSION OF VOTING ARRANGEMENTS, FRANCE AND
UK NOTED PROBLEMS WHICH COULD ARISE FROM NARROW
FOCUS ON "FINANCIAL STAKE" FOR DETERMINING VOTING
RIGHTS, SINCE IN A NUMBER OF ICAS CONSUMERS DID NOT
SUPPLY MUCH OF THE FINANCE. FRG TOOK OPPOSITE VIEW
THAT FINANCIAL STAKE AT LEAST IS CLEARLY IDENTIFIABLE
WHEREAS VAGUE NOTION OF "ECONOMIC INTEREST" OPENED
DOOR TO GIVING COUNTRIES VOTES WITHOUT CLEAR BASIS.
U.S. DEL SAID THAT IN EITHER U.S. ALTERNATIVE,
ALLOCATION OF VOTES TO CF MEMBERS WOULD REFLECT DIVISION
OF VOTES AGREED WITHIN ICAS THEMSELVES, WHICH CORRES-
POND MORE CLOSELY TO TRADE SHARES THAN TO FINANCIAL
STAKE. HE NOTED THAT UNDER U.S. ALTERNATIVES ICA VOTING
PATTERNS WOULD BE TRANSLATED INTO CF VOTING PATTERN
BY WEIGHTING ACCORDING TO THE RELATIVE SIZE OF THE ICA'S
CASH DEPOSIT IN THE CF.

SWISS DEL PROPOSED THAT AN ANALYTICAL EFFORT WAS
NEEDED TO DETERMINE THE ACTUAL RESULT OF DOUBLE
WEIGHTING PROCEDURE SUGGESTED BY THE U.S. HE EXPRESSED
CONCERN THAT CERTAIN DEVELOPED COUNTRIES WHICH WOULD
BE MAJOR PARTICIPANTS IN ALL ICAS WOULD HAVE LARGE
BLOCK OF VOTES, AND FEARED THIS RESULT WOULD NOT BE
SALABLE POLITICALLY. GROUP AGREED SECRETARIAT SHOULD
DO SOME HYPOTHETICAL CALCULATIONS EXAMINING EFFECT ON
VOTING PATTERNS OF ALTERNATIVE ASSUMPTIONS OF
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NUMBER AND SIZE OF ICA BUFFER STOCKS FOR NEXT MEETING
OF GROUP. AT FRENCH SUGGESTION THIS WORK WILL NOT
BE CONFINED TO EVALUATING U.S. SCHEME BUT COVER WIDER
RANGE OF COUNTRIES AND COMMODITIES.

6. NORWEGIAN PAPER: NORWAY PRESENTED DISCUSSION
PAPER OUTLINING VOTING AND MANAGEMENT ISSUES FOR
FOUR ALTERNATIVE VERSIONS OF CF, RANGING FROM POOLING
THROUGH MAJOR DIRECT GOVERNMENT CONTRIBUTIONS,
INCLUDING A SECOND WINDOW. KEY FEATURE OF NORWEGIAN

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SCHEME IS THAT SEATS AND VOTES IN EXECUTIVE BOARD
WOULD BE DIVIDED AMONG REGIONAL GROUPS BY POLITICAL
NEGOTIATION, WITH NO GROUP HAVING A MAJORITY BY
ITSELF, AND WITH SAFEGUARDS, THROUGH QUALIFIED VOTING,
FOR THE MOST IMPORTANT DECISIONS. NORWAY WAS
CRITICIZED BY NUMBER OF DELS, INCLUDING U.S., FOR
SUGGESTING ADOPTION OF UNCTAD SYSTEM OF REGIONAL
GROUPS FOR CF MANAGEMENT, THUS RISKING THAT
DECISION-MAKING WOULD TAKE PLACE MAINLY
ALONG POLITICAL LINES RATHER THAN REFLECT ECONOMIC
INTERESTS. UK AND FRANCE NOTED THAT GROUP B NEEDED A
BLOCKING MINORITY FOR KEY DECISIONS, NOT JUST
ASSURANCE THAT NO SINGLE GROUP HAD A MAJORITY.

7. SWISS THOUGHT SEPARATION OF DECISIONS
INTO IMPORTANT AND LESS IMPORTANT VARIETIES WOULD BE
INFEASIBLE AND SUGGESTED ALL DECISIONS BE MADE BY
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QUALIFIED MAJORITY UNLESS DECIDED OTHERWISE IN
SPECIFIC CASES. UK SAID IT WAS TOO EARLY TO
CATEGORIZE DECISIONS, BUT NONETHELESS OPINED THAT
ALL CONSTITUTIONAL AND SOME OPERATIONAL DECISIONS
WOULD NO DOUBT HAVE TO BE DECIDED BY QUALIFIED
MAJORITY. NORWAY RESPONDED TO COMMENTS BY NOTING
THAT THEIR PAPER WAS WRITTEN FROM THE PERSPECTIVE OF

WHERE THEY BELIEVE NEGOTIATIONS ARE LIKELY TO
WINDUP, RATHER THAN FROM THAT OF THE CURRENT GROUP
B PROPOSAL. NORWEGIANS THOUGHT THAT VOTING RIGHTS,
WHICH IN THEIR SCHEME WOULD STILL BE CLOSELY CONNECTED
TO FINANCIAL CONTRIBUTIONS, WOULD IN ANY CASE BE THE
KEY ISSUE.
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